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REPORT TO THE PRESIDENTIAL COMMISSION ON
CIA ACTIVITIES WITHIN THE UNITED STATES

Mr. Vice President and Members of the Commission:

In accordance with the Commission's request, my former colleagues and myself submit herewith a critique of the counterintelligence function in the Agency. We welcome the Commission's interest in this matter because it will be the first review of U.S. counterintelligence at such a responsible level in Government. In any event, it is urged that authoritative attention, beyond the life of the Commission, be given to the scope and role of counterintelligence in the Intelligence Community. This action is imperative because the current leadership is almost totally uninformed and inexperienced in the specialty of counterintelligence, and its authority for changes is being permitted to go unchallenged. The result is reflected in the failure to maintain continuity in this function. We believe

that unless there are some enforceable guidelines set forth by a higher authority, the conduct of effective counterintelligence by the Government will be lost for years to come.

Counterintelligence is traditionally a vital plate in the shield of national security. It also protects the security and well-being of our Allies who have access to our sensitive intelligence by virtue of identity of interests or because of formal arrangements and pacts such as NATO. There are also useful confidential interservice agreements whereby certain foreign intelligence services conduct unilateral or joint operations with our field stations, and the standard of their security is of continuing concern. In lower key, it is also in the interest of CIA to aid the security services of the remaining non-Communist countries where any friendly elements exist.

Although we have been charged primarily with our view on CIA counterintelligence as such, we have included, as perspective requires, the security and counterintelligence interrelationship of other agencies and departments. Unlike the collection and evaluation of positive intelligence, there has not been organized in Government, and particularly in the Intelligence Community, any machinery to produce an end-product which might be described to be <u>national</u> as distinguished from <u>departmental</u> counterintelligence. Very little is logical regarding this subject, unless one views the historical framework of the function, in terms of the special,

if not privileged, position of the FBI who had dominated the Intelligence Community as it relates to counterintelligence. Director Hoover refused to submit his views or policies to the scrutiny of the Intelligence Community where any problem remotely impinged on the interests and/or jurisdiction of the FBI. This unassailable stance estopped any and all attempts to bring the Bureau to account in any interagency board of equals charged with counterintelligence oversight, including the very effective President's Foreign Intelligence Board (PFIAB) who were thoroughly apprised of the facts, given their continuity and authority within the Community. What emerged was a loose ad hoc liaison of third parties, but never a meeting of chiefs with Mr. Hoover to hammer out basic issues relating to internal security and counterintelligence. This was the state of affairs until the appointment of Mr. Gray; counterintelligence as a function of Government - with few exceptions - was frozen by Mr. Hoover. Mr. Gray's tenure was marred by the turbulence of Watergate, and it was only with the appointment of Mr. Kelley that a new era opened up. Unfortunately, nothing of consequence has been tabled with Mr. Kelley on the outstanding issues.

Unlike the producers of positive intelligence, those engaged in counterintelligence are the primary consumers of their own product, and the counterintelligence product is less perishable than that of positive intelligence. We have attempted to remedy this omission over the years on an ad hoc basis by distilling intelligence from counterintelligence operations,

and we have concluded that ad hoc arrangements are inadequate for satisfying those who have a need for the counterintelligence end-product. As to the recipients, they should include selected officials who are involved in the estimating process as well as policy makers up to the Cabinet level. This has not been the case in the past, and as a result of this void, there has existed a conflict of views at both the policy and estimating levels regarding intentions, capabilities and the peculiar political dynamics of the Soviet Bloc. Experience would indicate that the basis differences in interpretation and evaluation are seemingly unbridgeable. What is required as soon as possible is an authoritative forum with access to all-source information in which differences may be joined and adjudicated.

We believe that the result would give the guidelines and targets for political action follow-up and would have a significant impact on interdepartmental policies which are not unrelated to the Soviet Bloc realities which we have uncovered in counterintelligence.

Specifically, reference is made to cases which involve a determination regarding the bona fides of Soviet defectors and Bloc sources whose positive information is given the broadest dissemination even though the source is suspect. From the beginning it has been defectors who have given us the most vivid appreciation of the clandestine activities of the Soviet Bloc. It is through defectors that one gains

knowledge regarding the identities and use of penetration agents and agents of influence who are, in turn, the kingpins of Soviet strategic deception.

An example of recent vintage which illustrates the range of confusion is Mr. McCone's response on television to a question that certain information was not turned over to the Warren Commission because the source was the KGB defector, Nosenko, whose bona fides at the time were not fully established. After having asserted that much effort always is devoted to the problems of bona fides, Mr. McCone related that he had been informed that the Agency's position now regarding Nosenko, as a result of a painstaking examination, was that he is bonafide. Astounded by this statement, the undersigned called the Agency officer who was the former executive assistant to Mr. McCone for clarification. He opined that Mr. McCone could not remember everything but that he would look into the matter. As of this writing there has been complete silence as to the identity of the Agency's spokesman.

To understand the significance of this anonymous bestowal of bona fides requires some further explanation of the Nosenko case. Several thousand man-hours have been expended in interviewing Nosenko and analyzing his information. While there were those somewhat removed from the case who accepted his bona fides, a contrary view was registered by the following: the Chief of the Soviet Division (who is now the Director's National Intelligence Officer for Soviet Production); the then

Deputy Chief of the Soviet Division, even though he was the first contact of Nosenko's in the field; and his chief associates in the Division. In favor of Nosenko's bona fides have been the Office of Security and certain other members of the Soviet Division. The most persuasive detractor of Nosenko has been the KGB defector, Golitsyn. He is regarded to be the most knowledgeable KGB defector to come our way. After a lengthy analysis, he concluded that Nosenko was a dispatched agent provocateur. His views are also shared independently by another Soviet Intelligence Officer who defected to the Agency. The Counterintelligence Staff arrived at the same conclusion. The question of bona fides is unresolved. It has been permitted to fester without any authoritative conclusion because it is an interagency problem affecting other Soviet Bloc cases which are controlled elsewhere in the Community. Nosenko's information revolves around the following subject matters:

1. President Kennedy's Assassination: Nosenko's story is that while he was in the KGB's internal intelligence, he read the case file on Oswald. Given the timing of his defection, shortly after the assassination, his account - not borne out by the initial polygraph - may be viewed as exonerating the Soviets of any complicity with Oswald, thus

supporting the flimsy documentation on Oswald handed over to the U.S. Government by the USSR. This would also tend to disavow any relationship between the USSR and Cuba in clandestine activity.

2. Penetrations: With one or more exceptions, he stated that there were no penetrations of the U.S. Government. This assertion flew in the face of the overview which Golitsyn gave to us regarding Soviet Bloc penetration of Western services and strategic deception.

3. Order of Battle of the KGB at Home and Abroad: There are many instances where Nosenko's information contradicts Golitsyn's.

We have concluded on the basis of present evidence that Nosenko was dispatched to the West to mutilate the counter-intelligence leads which had been revealed by Golitsyn. As to his observations regarding Oswald, it was the Soviets who have pushed the deception theme to the effect that Oswald was an instrument of the military - industrial complex of the eastern United States. This thought was first raised by Khrushchev in Cairo in an unusual interview which he had with an American journalist. It has since been pursued by the Soviets through various channels, mainly KGB, and it is now common currency in Soviet newspapers and other media.

The Nosenko case goes to the quick of the counterintelligence problem facing not only the FBI and the Agency but all Western Intelligence and Security Services, many of whom have received information derived from Nosenko. It is evident that as presently organized, the Intelligence Community is incapable of correlating intelligence production with the product and analysis of counterintelligence information.

Given the inability of the Intelligence Community to come to grips with the problems raised by counterintelligence, it is suggested that the only solution to the very unsatisfactory situation today would be the appointment of an ombundsman who would be authorized to act directly on behalf of the National Security Council on serious interagency problems which have a direct bearing on the plans and capabilities of the Communist Bloc and involve the more sensitive operations of counterintelligence. Alternatively, consideration could be given to the responsibilities of the Chairman of PFIAB, which might be enlarged to satisfy this need.

As Attachment A, I submit a letter and attachment which was submitted to the Secretary of Defense on 31 January 1975. Given the march of events and the uncertainties involved, in addition to the responsibilities of his high office, it is understandable, perhaps, that the Secretary has not wished to become entangled in disputations on this subject matter as long as the Agency and its various Directors are being subjected to investigation. Nevertheless, in our view, the

issues involving Soviet strategic disinformation and our defense posture go to the heart of national security insofar as they relate to estimates affecting the world balance of power. Additionally, we believe it to be most misleading for one to assume that estimates derived from technical collection alone justify the negotiation of finite disarmament and other treaties with the Soviet Bloc governments unless there is corresponding high-level covert intelligence production which supplements and confirms the findings of technical collection.

This view argues against the philosophy now being aired with Olympian aplomb that technical coverage alone is a substitute for clandestine sources or that it gives a reliable data base which justifies a super power to bargain away its strength. (Attachment B sets forth the views of Mr. Paul Nitze and his first-hand impression of the SALT talks. Of particular interest is his description of the atmospherics: [a] the peculiar role of the KGB among Soviet negotiators, and [b] how an uninformed U.S. representation learned from the Soviet delegation of changes in the U.S. negotiating positions arrived at in Washington. The KGB attempted similar ploys during the Johnson Administration with a former high official of President Kennedy's on the Vietnam issue.)

If there be validity to the information derived from Golitsyn, then it would follow that detente and estimates

derived therefrom are misleading with regard to the events in Portugal, Vietnam and other areas where we are in competition with the Soviets and the Bloc. A more accurate picture could be obtained if the structure of the Intelligence Community, in its processing of information, were less concerned with public or overt data regarding the Soviet Bloc intentions, such as the reporting of Ambassadors and other representatives, and instead give full faith and credit to secret information from bona fide sources who are or were within the Soviet Bloc system and whose warnings regarding disinformation have been universally ignored. To repeat, it is the opinion of these sources that the bulk of information available to the West through Soviet Bloc contacts, regarding the strategy and aims of the Eastern Bloc, is, on the whole, spurious and represents little more than coordinated handouts which advance the interests of Soviet Bloc strategic disinformation at many levels of communications.

The remainder of this report represents the status, as of March 1975, of U.S. counterintelligence, primarily within the CIA, but also, as the perspective requires, at the national level. The discussion consists of four parts;

The authority under which CIA conducts counterintelligence activities.

The nature of those activities.

A summary of critical developments in the history of U.S. counterintelligence from 1945 to 1975.

Recommendations which we respectfully urge the Commission to submit to the President for his consideration.

I. THE AUTHORITY

The current version of National Security Council Intelligence Directive No. 5, U.S. Espionage and Counter-intelligence Activities Abroad, effective 17 February 1972, is the charter for the conduct of foreign clandestine activities by CIA and by the other members of the U.S. intelligence and counterintelligence community. NSCID/5 defines counterintelligence as " ... that intelligence activity, with its resultant product, devoted to destroying the effectiveness of inimical foreign intelligence activities and undertaken to protect the security of the nation and its personnel, information and installations against espionage, sabotage and subversion. Counterintelligence includes the process of procuring, developing, recording and disseminating information concerning hostile clandestine activity and of penetrating, manipulating or repressing individuals, groups or organizations conducting such activity."

As defined, counterintelligence consists of two parts, security and counterespionage. Security is essentially the

static defenses erected against the clandestine activities of adversaries of the U.S., whereas counterespionage is aggressive activity of engaging the adversary clandestinely.

NSCID/5 stipulates that the Director of Central Intelligence shall undertake specified actions in order to ensure centralized direction of all clandestine activities within the scope of the Directive. It also charges CIA with primary responsibility for U.S. clandestine activities abroad and permits other departments and agencies to conduct such foreign clandestine activities as are supplementary or are necessary to their security. Departmental counterintelligence is brought together through two Director of Central Intelligence Directives, one which requires coordination in advance with CIA on clandestine counterintelligence operations abroad, and the other which stipulates that CIA shall serve as a central repository of foreign counterintelligence data to the Intelligence Community.

The flow of authority is from the National Security Council to the Director of Central Intelligence to the Deputy Director for Operations to the central counterintelligence unit of CIA or to an area division to provide whatever assistance the Director may require to discharge his obligations under NSCID/5 and its assignment to him of responsibility for the protection of methods and sources or under other laws, orders and directives. The immediate mandate of the counterintelligence component, however, is derived from

those responsibilities assigned directly to CIA (and thus chiefly from paragraphs 1b, 3b, 3c, 3d and 9 of NSCID/5, the chief provisos of which have been noted above).

In our view the DCI is not exercising under NSCID/5 responsible centralized direction of counterintelligence clandestine activity. As indicated to the Commission in verbal testimony, the current Director has spent less than four to five hours with the Counterintelligence Staff from the moment he became the Deputy Director for Operations until the present. His knowledge of the activity during the period when he was Chief of the Far East Division was one of failure and is reflected in an Inspector General's report of the period. This and some of his communications to the field are a matter of record in the FE Division. Instead of exercising leadership in resolving the serious problems of penetration and disinformation, which are of prime importance to the security of the country, under his aegis there has been a decentralization and mutilation within the Agency and, therefore, within the Community of high-level counterintelligence activity. We believe that substantial changes are needed and that these changes should be effected with and through an understanding of our counterintelligence mission, capabilities and needs. In setting forth our collective views on these matters, we do so, drawing on our professional experience as to what needs to be set right and how it may be done. The primary cause of the present vulnerability of our national security is the inadequate attention and serious lack of understanding of the counterintelligence function.

II. THE NATURE OF COUNTERINTELLIGENCE ACTIVITIES

The counterintelligence unit of the CIA bears a direct responsibility for the security of all Agency espionage and counterintelligence operations conducted abroad. It is also directly responsible for identifying and containing or controlling hostile clandestine activity through such operations as the following:

- The identification of adversary personnel, regardless of citizenship or location abroad.
- The penetration of foreign services.
- The handling and utilization of certain intelligence and counterintelligence defectors from foreign services.
- The management of double agent operations.
- The detection, analysis and nullification of hostile deception operations, including disinformation.
- Counterintelligence analysis and operations directed against adversary propaganda, defamation, forgeries and other covert activities.
- The exploitation of communications intelligence in furtherance of counterintelligence objectives.

- The conduct of liaison abroad with foreign counterintelligence and security services and with foreign services generally about counterintelligence matters.

- The conduct of domestic counterintelligence liaison to ensure the necessary sharing of information and coordination of action.

- The maintenance of its own records and the managerial supervision of CIA's central repository of records to ensure that the foreign counterintelligence in these holdings is collated, analyzed and made available to others in the Intelligence Community on a need-to-know basis.

III. A SUMMARY OF THE COUNTERINTELLIGENCE HISTORY OF CIA

After the Second World War, except for a few stations abroad, centralized U.S. counterintelligence practically disappeared. By October 1945, when O.S.S. was liquidated, its counterintelligence branch, X-2, had become a widespread net of overseas stations staffed by some 650 counterintelligence specialists. Starting nearly from scratch, X-2 had created and developed a thoroughly professional U.S. counterintelligence capability in a very short time because it served a leadership that understood and respected

the counterintelligence function and conferred upon it the necessary measure of authority, autonomy and the essential secrecy required for the conduct of this activity. To better understand the need for reform, it is believed that a short historical presentation is essential. What is here submitted is based on voluminous files and documentation which record the shaky progress of counterintelligence as practiced by the U.S. Government following World War II until the present.

After October 1945 the concept of counterintelligence as a separate and equal function withered away. On 17 October of that year Brigadier General John A. Magruder, then the director of the Strategic Services Unit (a short-lived inheritor of O.S.S.), stated in a memorandum to Mr. John J. McCloy that the valuable O.S.S. liaison relationships abroad were deteriorating because foreign services were uncertain as to whether the United States would have a central intelligence service. General Magruder was an honorable and conscientious custodian of O.S.S.

Although CIA was established in 1947, and although the first version of NSCID/5, promulgated in December 1947, charged the Director of Central Intelligence with the conduct of all organized federal counterespionage operations overseas, the new Agency did not have a central counterintelligence unit of mechanism through which it could meet its counterintelligence responsibilities.

On 1 January 1949 a report was submitted to the National Security Council at its request by men whom it had appointed to a Survey Group: Messrs. Allen W. Dulles (chairman), William H. Jackson and Mathias F. Correa. As one who had played a key role in the Office of Strategic Services, Mr. Dulles was familiar with the wartime role and performance of X-2. He understood its record and mission which were succinctly stated in the War Report: Office of Strategic Services.[1] The opening paragraph of this official account of X-2 reads as follows: "Counterespionage is a distinct and independent intelligence function. It embraces not only the protection of the intelligence interests of the government it serves, but, by control and manipulation of the intelligence operations of other nations, it performs a dynamic function in discerning their plans and intentions, as well as in deceiving them. An effective counterespionage organization is therefore an intelligence instrument of vital importance to national security."[2]

The Dulles Committee made recommendations designed to strengthen CIA and its counterintelligence capability. The

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1 Vol. I, Washington Organization, History Project, Strategic Services Unit, Office of the Assistant Secretary of War, War Department, Washington, D. C., July 1949.

2 Ibid., p. 189.

1949 report is infused with an understanding of problems and principles that have remained much the same for the past quarter of a century. The following two brief quotations are illustrative: " ... We ... propose that the branches of the Central Intelligence Agency which are directly engaged in clandestine actitivities, such as secret intelligence [espionage], counterintelligence, secret operations and the like, be given a great measure of autonomy as to internal administration, the control of their operations and the selection of personnel." The report also stated, "It seems apparent that the present counterespionage staff of the Office of Special Operations should be materially strengthened and more intensive counterespionage work promoted."

Until the end of 1954, however, counterintelligence remained structurally and in other respects subordinate to the collection of positive intelligence. In August 1950 there was a counterintelligence sub-unit called Staff C, but it had a total strength of twenty-three. The Soviet Intelligence Branch of Staff C consisted of three people. The result was a dispersion of the counterintelligence function among the area branches and a degradation of the work to such lowest common denominators as name tracing, maintenance of counterintelligence files and the like.

A notice of 20 December 1954 announced the formation of a new, senior counterintelligence element, the Counterintelligence Staff. For the first time CIA had elevated the

counterintelligence function, as a Staff function, to full parity with espionage and covert activities. One of the first undertakings of the Counterintelligence Staff was to determine who was doing counterintelligence work, what they were doing and under what circumstances. This survey was launched in 1955 and completed in 1956. It established that except for the Counterintelligence Staff itself, the Operational Directorate had only 133 full-time counterintelligence officers, about 6 per cent of its total non-clerical strength. The average grade of these officers was GS-09, and their average Agency experience was five years. Only one in four had had either basic or advanced training in counterintelligence.

From the end of 1954 until April 1973, the apex of its development, the Counterintelligence Staff grew in numbers, skills and responsibilities. By the latter date its personnel strength, as I noted in my earlier report to the Commission, consisted of 130 officers and seventy-two assistants and clerical personnel. This total of 202 still constituted only 3.7 per cent of the total Directorate of Operations strength of 5,662. As a result CIA could not meet its counterintelligence responsibilities adequately even at this peak of on-board counterintelligence strength. It is our view that the Operations Directorate ought to devote no less than 10 per cent of its manpower to counterintelligence and that no less than half of its

counterintelligence personnel should be allocated to the counterintelligence unit in Headquarters. This 10 per cent, comprising 566 officer and clerical employees, would still fall considerably short of our counterintelligence strength in the fall of 1945 when O.S.S. was dissolved.

The Counterintelligence Staff was nevertheless able to work effectively against its major targets. The scope of this paper prohibits an adequate resume, but there is an indication of the results achieved in the fact that during the years 1961 through 1963 eight major Soviet penetrations of American and foreign liaison intelligence services were uncovered and that six of the eight exposures resulted directly from CIA's counterintelligence work. Fifteen Soviet agents were arrested, as well as more than twenty others who were working clandestinely for one or another of the East European services.

In August 1973 as a result of the change in leadership in the Agency, there was put in motion a series of baffling administrative and functional changes which ignored the state of the art; the need for resolving many inter-Agency problems in counterintelligence, and, particularly, the need to work out with the FBI in depth a number of conflicts concerning the bona fides of sources; the handling of defectors; and authoritative research and analysis pertinent to these differences.

The strength of CIA's counterintelligence unit was cut almost in half - to eighty-nine; and by December 1974 the on-board strength of our counterintelligence personnel, officer and clerical, was down to seventy-seven, a total comprising 1.7 per cent of Operations Directorate strength. This abrupt reduction in force was accompanied by the transfer of four interlocking staff elements (International Communism, Operational Approvals, Police and Counterintelligence Liaison) to other jurisdictions. I do not know of any reasons concerning the performance of the Counterintelligence Staff or the scope of hostile clandestine intelligence action against the U.S. which would justify this drastic reduction and weakening.

With regard to the FBI it is a fact that for some years prior to the death of Mr. Hoover, there were sharp differences between the FBI and the Counterintelligence Staff regarding the bona fides of Soviet intelligence personnel who represented perhaps the prime sources of information in relation to Soviet Bloc activity in the U.S., penetration in the Government and the order of battle of the Soviet presence.

CIA was fortunate to acquire a KGB defector in December 1961 who had spent many years at a very high level of Soviet security acquiring the most sensitive information in the full knowledge that when the time was propitious, he would defect to the West and impart his information. By way of simplification, it should be noted that this individual

was responsible for the breaking of many espionage cases in the West, but equally important he divulged Soviet plans, strategy and organization effected in 1959 by the KGB under the auspices of the Central Committee which in turn mapped out in partnership with other services of the Bloc a program of action whose principal targets were the isolation of the U.S. as the "Main Enemy" and the ultimate change in the balance of military power in favor of the Soviet Bloc.

During the later tenure of Mr. Hoover, which was fraught with difficulties between the FBI and members of the Senate, and included other changes hampering or limiting the FBI's ability to conduct internal security operations, the hard issues of disagreement were never dealt with on an agency-to-agency basis. To the contrary, as the Commission is well aware, there was eventually a breakdown in liaison across the board between departments and agencies of the Government with the FBI (with the exception of the White House). Further, the internal disputes within the Bureau challenging Mr. Hoover's leadership were extremely detrimental to any objective consideration concerning the national security, and consequently years were lost in pursuing the national counterintelligence objective. During this period, in our view, national estimates and evaluations were formulated in concrete establishment of detentist philosophy which marked the real state of Soviet Bloc subversion in the secret war.

By way of explanation, we can illustrate the ineffectual coordination with a case involving a long-term Soviet penetration in the Agency. A very important staff agent was unmasked by virtue of information supplied by the aforementioned defector, but in the process the FBI officially took the position that the candidate who was submitted by the Agency was not the Soviet agent in question, and by memorandum they proposed that we submit all of the data to the Department of Defense on grounds that the penetration agent was more likely a past or present asset of the military. Subsequently, a high-level source confirmed our original identification, which in turn was accepted by the FBI. The case is illustrative of the inability within this Government to resolve interagency differences in all of those sensitive fields affecting penetration.

The result of the 1973 changes was a decentralization of counterintelligence, a retrogression to the inadequacies of the period 1949 to 1955. Now, as then, counterintelligence in CIA lacks the necessary specialists and the requisite interaction at the Agency's highest levels. Some of the present grave problems are not new, but the recent changes have greatly magnified them. Among our present weaknesses are the following:

- An almost total failure against Soviet illegals (intelligence officers under deep, non-official cover). At

present CIA is not conducting a single operation against a Soviet illegal.

- <u>An incapacity to pursue unresolved outstanding leads</u>. We estimate that there are some fifteen hard-core leads to known or probable penetrations by adversary services into U.S. or Allied services; that there are about one hundred leads meriting immediate study, analysis, investigation and exploitation; and that there are no less than one thousand that merit pursuit. All of them are now dormant.

- <u>An inability to deal effectively with the twin problems of devising and carrying out strategic U.S. deception operations and of nullifying adversary deception</u>. This serious weakness is not imbedded in CIA alone, and it did not result from the restructuring of Agency counterintelligence. The U.S. lacks a single, duly mandated, centralized authority for dealing with deception. Those few individuals and groups in the U.S. Government, chiefly in the military services, who are concerned with strategic

deception lack ready or frequent access to the policy level. They attempt to frame deception plans in ignorance of new policies, and they can obtain top-level review of their plans only on an ad hoc basis. The remedy is not to abandon deception and counter-deception but to elevate these functions. Should the Government do so, however, CIA would now lack the required expertise.

- A dwindling cadre. A substantial core of experienced counterintelligence specialists is the first preequisite for an effective counterintelligence program. Only a few are left today. The problem results not solely from the drastic reduction in force in 1973 but also from a philosophy and system that have made it almost impossible to replace either the numbers of the skills of those lost through attrition. In the Operational Directorate it is the Area Divisions that are linked by a command line to top CIA management in Headquarters and to all 147 Agency stations overseas. The Divisions select

young intelligence officers soon after the completion of their initial training, at the outset of their careers. They send many of them abroad, direct their work through Chiefs of Stations and Bases and bring them back in accordance with the personnel needs of Headquarters and the Field. The result is a system of rotation that benefits both the Agency and the employee. In contrast, the counterintelligence unit in Headquarters has no representative of its own overseas. To secure competent replacements, it must try to intervene in the normal progress of careers, to persuade officers and Divisions that higher interests require a change of their plans and to convince the officers that they should choose careers in counterintelligence even though their career advancement is in fact likely to be impeded by this choice. In brief, CIA has no system for developing counterintelligence career officers; sending them abroad on a rotational basis to acquire, through a series of tours, the necessary experience as specialists; and providing them with the same incentives and career prospects as those of their peers in the Area Divisions.

- An accelerating decline in the quality of our counterintelligence liaison relationships abroad. Here too there is a parallel with the problems that beset us in the past and that gave cause to General Magruder to express his concern in 1945.

Most of CIA's liaison overseas is carried out with counterintelligence and security services because only a minority of nations maintain foreign espionage organizations, whereas nearly all have internal security services. Italy is typical. It has a few intelligence officers overseas, but 99 per cent of its strength is at home. The major Italian intelligence service is the Defense Intelligence Agency (SID). The SID draws its counterintelligence from the Carabinieri (a semi-military organization with a network of posts spread throughout the country) and from all of the military services. The service has a vast array of domestic sources that number in the high thousands and range from the portieri who tend apartments throughout Italy to high dignitaries of the church and state. The chief of the SID has

direct access to the Minister of Defense, and some service chiefs have also had the benefit of immediate access to the president of the republic. Through its liaision with the SID the CIA greatly augments its own resources at scant cost. The same pattern obtains, in varying degrees, in all of the countries (more than one hundred) and most of the services (more than three hundred) with which CIA maintains liaison relationships.

Counterintelligence liaison requires close and expert attention. It is built upon mutual interest; but through training, persuasion and other means the skillful liaison officer expands the shared basis and thus directs or redirects the enormous counterintelligence resources of the non-Communist world against targets of primary importance to the U.S.

In return for this vast strengthening of our defense, our Allies look to us for several advantages: for example, a buttressing of their frequently meager capabilities in research and analysis. They must also be confident that we can give a full measure of

protection to secrets shared with us. And they look to us for leadership. At times we have disappointed them.

An instance of this occurred in September 1971, when the British expelled ninety to 105 Soviet intelligence officers from their country in a single action. They had noted a relentless buildup of the Soviet clandestine force in their midst. MI 5, the British counterintelligence service, found that the fifteen intelligence officers whom it had identified in the U.K. in 1950 had grown by 1970 to more than 120. The PNG action was carried out despite some qualms. The Soviets made only a token retaliation. The Belgians followed the British lead, though on a smaller scale and without publicity. A number of liaison services expected the U.S. to make a similar move, and the FBI and CIA joined in recommending such action here. But no initiative was undertaken.

Now the fabric of our counterintelligence liaison relationships shows some fraying because of clamor in the American press and a consequent change of atmosphere. Our partners are no longer sure that we can act decisively

in concert with them or even keep their secrets. To weather the crisis, CIA needs a strengthened counterintelligence cadre in its Headquarters, one able to give full support and judicious guidance to liaison officers abroad.

- A mounting inability to cope with the growing menace of hostile clandestine activity. The sudden reduction in CIA's central counterintelligence capacity took place at a time when the intelligence services of the Soviet Bloc, about twenty-five in all, have increased immeasureably their total presence abroad and their operational initiatives, particularly in respect to strategic deception and penetration. The Soviet capability in economic and industrial espionage has always been a very real danger to the U.S. and remains so. For this reason I included a summary of the Armand J. Hammer case in my earlier report, and I resubmit it with this paper (Attachment C). A second illustration is the case of General Yevgenni Petrovich Pitrovanov, also attached (Attachment D). Our estimate of total Soviet intelligence

strength abroad in January 1975 was ca. 3,900, of whom 332 were stationed in the U.S. Soviet official presence in the U.S. and other countries has grown more rapidly in recent years than has the corresponding number of identified operatives, although we feel confident that the ratio of about 40 per cent has not changed, or not at least to the advantage of the West.

As my previous report stated, Director Kelley has warned of a growing imbalance between our adversaries and the forces at his disposal. We believe that there has been a severe decline in the effectiveness of U.S. counterintelligence both domestically and abroad. Something of the aggressiveness of the hostile services is shown in their persistent attempts to recruit Americans abroad for such clandestine purposes as penetration. During the period 1965 through mid - 1972, there was a total of 2,150 such incidents (an incident being an outright attempt to recruit or an overture clearly intended to lead to recruitment). Thus, in an average year, 287 Americans overseas are approached by

adversary services with intent to harm. It would be unrealistic not to expect the KGB and other clandestine Communist services to recognize that the present is a time of disarray in U.S. counterintelligence and to seek to exploit this advantage to the hilt.

- Inadequate information about the intelligence and security services of China, Cuba and Eastern Europe, especially the latter. We have a large body of counterintelligence about the USSR, and it has been entered into computer programs. Our machines programs about the services of Poland, Hungary, East Germany, Czechoslovakia, Romania, Bulgaria, Albania and Yugoslavia are, in contrast, non-existent or moribund. They have been allowed to slide because of the pressures of keeping up with services as large and virulent as the KGB and the GRU. The USSR itself has not made this mistake. It orchestrates large-scale clandestine operations against the West, assigning roles to the apparatuses of the Warsaw Pact states and to Cuba in accordance with their capabilities. These Soviet allies are extensions of the Soviet capacity to wage underground warfare, and therefore we need to know

them intimately and to keep our knowledge current. Our performance falls too short.

- <u>A lack of communication and interaction between the Director of Central Intelligence and CIA's counterintelligence unit</u>. The present Director lacks counterintelligence experience. He has asked for, and received, only one two-hour briefing on the subject. Most of his predecessors, in contrast, were vitally concerned. Through briefings and through operational participation they acquired a real familiarity with the wide spectrum of counterintelligence and the problems that it inevitably engenders. The present Director of Central Intelligence, on the other hand, has managed CIA's affairs without consulting me or other highly experienced counterintelligence officers about Agency operations, programs or priorities. Those now designated to succeed us cannot, with the best will in the world, make a sudden leap that will carry them across decades of intensive, daily experience acquired by those who already have left the Agency and those who are unquestionably leaving in the not-too-distant future. Thus counterintelligence is left with a growing threat, undiminished responsibilities, a sharp reduction in capabilities and no effective access to the Agency's top managerial level on substantive issues.

IV. RECOMMENDATIONS

The following recommendations are presented for the consideration of the Commission with the sole intent of revitalizing national counterintelligence and enabling it to discharge its assigned responsibilities in furtherance of national security. To this end we propose the following changes:

1. That the Operational Directorate of CIA assign not less than one-tenth of its component to counterintelligence.

2. That of this total about half be assigned to a central counterintelligence unit in Headquarters and that the remaining half be divided among the various Area Divisions and branches in Headquarters and selected Agency stations abroad.

3. That CIA provide this cadre with counterintelligence training in depth.

4. That selected counterintelligence personnel be rotated through Headquarters and field assisgnments of growing responsibility in accordance with career plans that afford them opportunities for advancement which equal those of their Agency colleagues.

5. That counterintelligence designees abroad work under the nominal command of Chiefs of Stations but that they engage in counterintelligence work full time and that they have privacy channels of communications with the Headquarters counterintelligence unit which will ensure that access to their sensitive information remains on a compartmented, need-to-know basis.

6. That close operational liaison between the FBI and the counterintelligence unit be fostered, and that direct, operational, domestic liaison with other U.S. departments and agencies by the counterintelligence unit be maintained to whatever extent the national interest requires.

7. That the U.S. establish a single central organ to formulate policy for national strategic deception and to deal with adversary deception, specifically including disinformation. Further, that this body have the necessary access to policy-creating levels of the U.S. Government and that it have the necessary measure of jurisdiction over Governmental components engaged in deception and counterdeception.

8. That CIA counterintelligence liaison abroad be improved through a judicious augmentation of exchange of counterintelligence information, including penetration leads, by augmentation of U.S. capacity for leadership in dealing with the common adversary, and the expansion of the cadre of counterintelligence liaison officers abroad.

9. That CIA undertake a more vigorous program to obtain further data about the intelligence and counterintelligence services of China, Cuba and Eastern Europe, so that our knowledge of them becomes fully comparable with our knowledge of the Soviet services, and that these increased holdings be placed in machine records as rapidly as their size warrants.

10. That the U.S., and especially the FBI and the CIA, intensify counteringelligence work against Soviet and other illegals.

11. That within the expanded counterintelligence unit in CIA headquarters a defector section be created and that this section be responsible for supervising the operational handling and continuing debriefing of designated defectors, both abroad and in the U.S.,

the latter responsibility to be assigned in agreement with the FBI and other affected departments and agencies.

12. That the chief of the counterintelligence unit have direct and frequent access to the Director of Central Intelligence and other Deputy Directors and members of the Intelligence Community engaged in security and counterintelligence to ensure that counterintelligence considerations are given due weight in the formulation of policy and that counterintelligence capabilities are fully utilized in defending CIA and other U.S. departments and agencies against clandestine activity, including penetration operations, carried out by our adversaries.

James Angleton

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Attachments: as stated